

August 24, 2005

Ms. Susan M. Hudson, Clerk  
Vermont Public Service Board  
Chittenden Bank Building, 4<sup>th</sup> Floor  
112 State Street  
Post Office Drawer 20  
Montpelier, Vermont 05620-2701

Re: CVPS Comments Regarding the Procedures for Implementation of Act 61

Dear Ms. Hudson:

By Memorandum of August 1, 2005 (the “Memorandum”), the Public Service Board (the “Board” or “PSB”) requested that interested parties file recommendations on the procedures to be employed by the Board to implement the various aspects of Act 61. This letter sets forth Central Vermont Public Service Corporation’s (“Central Vermont,” CVPS” or the “Company”) comments in accordance with that request.

### Overview

As the Board notes, Act 61 is a wide-ranging law with interrelated provisions that require the PSB, Department of Public Service, and utilities to undertake a broad array of new tasks and to work together to develop new instate renewable resources and combined heat and power projects. To help the Board understand the scope of this enactment, the Memorandum requests that respondents explain how the various aspects of Act 61 interact with each other and with real-world situations currently facing Vermont utilities and other affected parties. Central Vermont observes that the various aspects of Act 61 are designed to encourage Vermont utilities to seek to meet incremental loads with renewable resources including new units to be developed in Vermont. As the Board is aware, CVPS has been working with projects for many years and has experience in bringing projects on line – including new renewable projects. From the Company’s perspective, it is important that a clear, consistent set of rules and policies be developed that can ease the administrative cost of bringing new resources into the mix. This includes rules and policies regarding the price, terms and conditions of services, as well as recovery of the incremental costs of this new initiative.

CVPS also notes that Act 61 contains provisions that are designed, in part, to reform the policies that govern Vermont's delivery of demand side management programs and services. Vermont has worked hard to develop a unique infrastructure for the delivery of efficiency services and many parties have worked to create the Energy Efficiency Utility (the "EEU"). Act 61 now asks the Board to take on budget responsibility for the EEU, to establish procedures for customer exemptions from the Energy Efficiency Charge, and to expand the scope of programs and service to be provided to include potentially combined heat and power projects ("CHP"). CVPS believes that these changes coupled with wholesale market reforms necessitate a focused review of EEU policies. The goal of these efforts should be to better align the energy efficiency system with the new and changing regional supply market so that Vermont's efficiency investments yield their highest value for the Company and its ratepayers. Thus CVPS believes that Efficiency Vermont should be a key participant in these efforts.

To help facilitate the implementation of the various tasks required under Act 61, CVPS urges the Board to look to existing system and learn from participants' past experiences. In Vermont, the Board has administered the Rule 4.100 system for some time – a system that has many features like the SPEED program contemplated under Act 61. The current purchasing agent, VEPP Inc., could add SPEED purchases to its duties and offer economies of scale while building on their experience and demonstrated abilities. Similarly, Central Vermont has worked with qualifying facilities under PURPA and implemented its own Voluntary Renewable Tariff, the "CVPS Cow Power program" to develop new renewable farm-generation projects in the Company's service area. A study of these initiatives, both their strengths and weaknesses, might be a good start to help identify practical considerations attendant to the implementation of Act 61. Thus CVPS believes that VEPP Inc. will also likely be an important participant in these efforts.

CVPS believes that the effort to implement Act 61 creates the opportunity to streamline a number of issues attendant to the development of new in-state, distributed generation projects. Moreover, the effort creates the further opportunity to see if regulatory mechanisms can be harmonized to encourage the location of distributed generation projects (renewable or CHP) in areas where they are most valuable to the electric system and its customers. Like DSM, the introduction of DG at strategic locations can help to manage costs. The Board should also consider this aspect of DG as it contemplates its implementation approach under Act 61.

In sum, Central Vermont recommends that the Board take a methodical look at the various aspects of Act 61 and work with interested parties to develop a cost-efficient system that helps to align the interests of the various groups to ensure the new law's success.

### Procedural Recommendation

The Memorandum also seeks procedural recommendations from participants on how the Board should go about the process of structuring its work attendant to Act 61. As general guidance, CVPS believes that the tasks related to the implementation of new renewable projects may best be addressed through rule-making. However, before beginning a formal rule-making process, CVPS believes that the most efficiently constructive course is for the Board to convene an educational and consensus building effort. It is likely that significant consensus can be developed once participants have a clearer, common understanding of the technical, financial and feasibility opportunities and challenges associated with Act 61.

CVPS notes that the Board has used workshop proceedings and collaborative discussions to help shape the formulation of many proposed rules. Our initial recommendation is that the Board should concentrate on the areas needed for the creation of the Sustainably Priced Energy Enterprise Development (“SPEED”) program. As part of this effort the Board should ask parties to work together to develop a draft rule that includes the following:

- the development of pricing guidelines, terms and conditions for the power purchase arrangement to be facilitated by the SPEED agent;
- the roles and responsibilities of the respective parties (*i.e.*, producers, the utilities and the Board’s agent) under the SPEED Program including the process for identifying and selecting an agent;
- the method and process for recovering the incremental costs attendant to the speed program including power purchase and administrative costs (including the costs for the agent);
- the mechanism to assure purchasers’ cost recovery commensurate with a mandated resource procurement program;
- the development of interconnection standards for distributed generation (which will need to take into account the role of the FERC and its recent promulgations on interconnection standards); and
- the establishment of a system of tradeable renewable energy credits (which may be accomplished via the use of the ISO-NE Generation Information System).

Central Vermont notes that under Act 61, a renewable portfolio standard does not become applicable unless the SPEED program goals set forth in 30 V.S.A. § 8005(d) are not satisfied.

Accordingly, Central Vermont believes that there is time to consider the design of an RPS at a later date as it does not initially appear to the Company that the deferral of this effort will create lost opportunities in light of the SPEED program.

Also as part of the initial push to develop the SPEED program, Central Vermont recommends that the Board concurrently reform existing Rule 4.100 as it relates to the purchase of energy from new resources. It does not make sense to CVPS for there to be two distinct agents for the purchase of power from new renewable resources or combined heat and power projects, and that since there have been significant implementation issues that have arisen under Rule 4.100, the time has come to reform this process as a part of the establishment of the SPEED program. Such reform is all the more timely given federal enactment of the Energy Policy Act of 2005 with its impacts on PURPA.

In a similar vein, a rule-making process, with an initial collaboration to develop a proposed rule, may be a very efficient way to address the changes called for under Act 61 affecting the Energy Efficiency Charge (the “EEC”). Such a process could consider:

- the development of a mechanism under which customers can apply for an exemption from paying some or all of the EEC; and
- the determination of an appropriate budget level for the EEU now that the statutory cap on that funding has been removed.

A related set of issues surround the activities of the EEU. However, since the establishment of the EEU was initially made in accordance with a Memorandum of Understanding in Docket No. 5980, CVPS urges that the initial effort to reform the EEU involve at least the parties to that MOU. The Act 61 issues that fall into this area include:

- the possible development of a CHP program as an energy efficiency program (including the recovery of attendant utility and administrative costs);
- the reform of the EEU’s cost-effectiveness testing procedures to align with the new regional power market designs; and
- the consideration of methods to better target EEU activities to maximize the value garnered from customers through demand side management program investments.

Central Vermont notes that these matters may better be resolved through an Order establishing Board policies, rather than through rule-making. This was in fact the past practice employed by the Board in Docket No. 5980

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Lastly, Central Vermont notes that Act 61 addresses other issues that may best be addressed through workshop or are already the subject of open PSB investigations. These include:

- the consideration of performance-based regulation for electric and gas utilities;
- the least-cost integrated planning for transmission services; and
- the various reporting requirements.

With regard to these matters, CVPS suggests that interested parties work with the Board to consider the issues raised by Act 61 outside of either a rule-making or docket investigation. We note further that the main issues attendant to least-cost integrated planning for transmission services are also the subject of Docket No. 7081. To the extent that reporting requirements arise under any of the subject specific proceedings identified above, the reporting requirements should be addressed in the proceedings described therein.

Central Vermont hopes that these comments are useful and that they will help the Board to efficiently and effectively administer the new tasks called for under Act 61. Central Vermont very much appreciates the opportunity to offer comments and will continue to work collaboratively with the Board and interested parties to successfully implement this new law.

Should you have any questions concerning these comments, please do not hesitate to contact me.

Respectfully yours,

Kerrick L. Johnson  
Director, Governmental Affairs

KLJ/m